

Message Text

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PAGE 01 BUCAR 06516 181407Z

47

ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SSO-00 INRE-00 NSCE-00 USIE-00

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FM AMEMBASSY BUCHAREST

TO SECSTATE WASHDC IMMEDIATE 5916

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E.O. 11652: N/A

TAGS: EINV, RO, US

SUBJ: GOR-ISLAND CREEK JOINT VENTURE

REF: STATE 208309

1. DEPY MIN STEFAN (FOREIGN TRADE) TODAY URGENTLY REQUESTED OUR ASSISTANCE WITH TAX PROBLEM IN CONNECTION WITH GOR'S PROPOSED JOINT VENTURE WITH ISLAND CREEK COAL CO. PROBLEM, AS OUTLINED IN LETTER TO GOR FROM ISLAND CREEK PRESIDENT GORE, IS ALLEGED GENERAL SUSPENSION BY IRS OF ISSUANCE OF TAX RULINGS RELATING TO "COST COMPANIES". ACCORDING TO GORE'S LETTER (COPIES POUCHED TO EUR/EE CHRISTNESEN, EB/IOA, COMMERCE/BEWT DEPY ASST SEC DOWNEY AND TREASURY CLAPP), IRS HAS INDICATED THAT ACTION ON ISLAND CREEK REQUEST TO OPERATE AS JOINT COMPANY CAN NOT BE TAKEN FOR AT LEAST SIX MONTHS. MOREOVER, ISLAND CREEK UNDERSTANDS THAT THERE IS POSSIBILITY THAT ISSUANCE OF RULINGS MAY BE DISCONTINUED ALTOGETHER. FINALLY, IRS IS SAID TO HAVE CAUTIONED THAT, EVEN IF PRACTICE OF MAKING SUCH RULINGS IS RESUMED, THERE WOULD BE, IN GORE'S WORDS, "CONSIDERABLE DOUBT THAT A FAVORABLE RULING WOULD BE ISSUED ON OUR APPLICATION."

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PAGE 02 BUCAR 06516 181407Z

2. AS SOLUTION, GORE HAS SUGGESTED TO GOR THAT JOINT VENTURE BE RESTRUCTURED AS PARTNERSHIP RATHER THAN CORPORATION. FROM STEFAN'S COMMENTS, HOWEVER, WE GATHER GOR REMAINS STRONGLY PREDISPOSED TO CONCEPT OF CORPORATION AND IS NOT PRESENTLY PREPARED TO ABANDON THAT APPROACH IN FAVOR OF PARTNERSHIP. AS RATIONALE STEFAN REITERATED STANDARD GOR POSITION THAT, AS EXPRESSION OF GROWING INDUSTRIAL COOPERATION BETWEEN TWO COUNTRIES, ROMANIA BELIEVED THAT JOINT VENTURE SHOULD APPROPRIATELY BE IN FORM OF PUBLIC COMPANY.

3. IN DELIVERING HIS APPEAL FOR PROMPT, FAVORABLE RESOLUTION OF QUESTION OF TAX RULING, STEFAN STRESSED IMPORTANCE OF PROJECT TO ROMANIAN ECONOMY AND U.S.-ROMANIAN ECONOMIC RELATIONS. HE MAINTAINED THAT ESTABLISHMENT OF JOINT VENTURE IN EARLY JANUARY NECESSARY TO ENSURE INITIATION OF MINE PRODUCTION IN 1976. IN TURN, THIS COMMENCEMENT OF PRODUCTION WAS TERMED CRUCIAL TO ROMANIAN PLANS FOR STEEL COMPLEX AT CALARASI.

4. STEFAN STATED THAT FODOR OF ROMANIAN COMMERCIAL OFFICE HAD BEEN INSTRUCTED TO PURSUE THIS MATTER BUT THAT GOR HAD THUS FAR RECEIVED NO WORD OF RESULTS OF HIS EFFORTS. GOR THEREFORE TURNING TO US FOR AID. DCM AGREED TO SEEK EXPEDITE CLARIFICATION OF SITUATION AND TO INFORM MINISTRY. HE SUGGESTED THAT AMBASSADOR BOGDAN ALSO BE APPRISED OF PROBLEM AND THAT BOTH BOGDAN AND FODOR COORDINATE THEIR ACTIVITIES WITH DEPARTMENT.

5. WE ARE CLEARLY NOT IN POSITION TO JUDGE RELATIVE IMPORTANCE OF REPORTED IRS SUSPENSION OF ACTION ON ISLAND CREEK APPLICATION AGAINST VALUE OF THIS PROJECT FROM STANDPOINT OF OUR BILATERAL ECONOMIC RELATIONS. WE CAN STRONGLY AFFIRM, HOWEVER, THAT GOR VIEWS VENTURE AS EXTREMELY SIGNIFICANT ONE FOR ITS ECONOMY AND AS TEST OF OUR WILLINGNESS TO COOPERATE ECONOMICALLY. IN VIEW OF PROJECT'S IMPORTANCE, OF SANCTION GIVEN BY COMMITTEE ON FOREIGN INVESTMENT, AND OF ROMANIAN COOPERATION WITH COMMITTEE'S EXAMINATION, WE WOULD HOPE THAT IRS COULD AGREE AS AN EXCEPTION TO ITS SUSPENSION OF TAX RULINGS TO CONSIDER ISLAND CREEK APPLICATION IMMEDIATELY. SECONDLY, WE WOULD HOPE THAT IN THIS IRS EVALUATION THAT FULL WEIGHT WOULD LIMITED OFFICIAL USE

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PAGE 03 BUCHAR 06516 181407Z

BE ACCORDED TO FOREIGN POLICY CONSIDERATIONS.

6. AMBASSADOR HAS APPOINTMENT WITH DEPUTY PRIME MINISTER PATAN SATURDAY. IT WOULD BE MOST USEFUL TO HAVE FOR THAT MEETING SOME PRELIMINARY READING AS TO HOW WE PROPOSE TO TREAT ROMANIAN REQUEST. WHATEVER BACKGROUND CAN BE PROVIDED ON SUBSTANCE OF ALLEGED IRS SUSPENSION OF TAX RULINGS AS WELL AS ON CONCEPT OF "COST COMPANY" AS DISTINGUISHED FROM

PARTNERSHIP WOULD ALSO BE MOST USEFUL.
BARNES

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